LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6391
BILL NUMBER: SB 221

DATE PREPARED: Nov 15, 2001
BILL AMENDED:

SUBJECT: ICHIA Assessments.

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FUNDS AFFECTED: X **GENERAL**
DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: This bill provides that reinsurers and stop-loss insurers doing business in Indiana are members of the Indiana Comprehensive Health Insurance Association (ICHIA) and are subject to assessment for ICHIA's net losses. The bill provides that a member's share of ICHIA's net loss is assessed in proportion to the member's share of all individuals in Indiana who are covered by health insurance provided by a member plus all individuals in Indiana whose coverage is reinsured or supplemented by a member that is a reinsurer or a stop-loss insurer. (The introduced version of this bill was prepared by the Health Finance Commission.)

Effective Date: January 1, 2003.

Explanation of State Revenues: Expanding the base over which the net losses of ICHIA are distributed will likely increase state revenue expenditures in support of the ICHIA program and reduce the relative contribution of the current ICHIA member companies. State tax revenues are estimated to be reduced by $11.7 M on an annual basis based on certain assumptions described below. The revenue impact could potentially begin in FY 2003 with quarterly tax filing.

Background: ICHIA is the high-risk insurance program offered by the state. ICHIA is funded through premiums paid by individuals obtaining insurance through ICHIA, by assessments to member companies (insurers, health maintenance organizations, and others that provide health insurance or health care coverage in Indiana), and the state General Fund. To be eligible, Indiana residents must show evidence of: (1) denied insurance coverage or an exclusionary rider; (2) one or more of the "presumptive" conditions such as AIDS, Cystic Fibrosis, or Diabetes; (3) insurance coverage under a group, government, or church plan making the applicant eligible under the federal Health Insurance Portability and Accountability Act (HIPAA); or (4) exhausted continuation coverage (e.g., COBRA). Premium rates must be less than or equal to 150% of the average premium charged by the five largest individual market carriers.

The net losses of ICHIA (the excess of expenses over premium and other revenue) are made up by assessments on member insurance carriers. Members may, in turn, (1) take a credit against Premium Taxes, Gross Income Taxes, Adjusted Gross Income Taxes, Supplemental Corporate Net Income Taxes, or any combination of these taxes; or (2) include in the rates for premiums charged for their insurance policies amounts sufficient to recoup the assessments. The amount of assessments that are recouped by insurance carriers through tax credits or premium increases is not known at this time.

One of the problems associated with the current assessment mechanism to cover program losses is that only a fraction of the insurance carriers and health plans are able to be assessed because of the ERISA protection of self-funded plans (Employee Retirement Income Security Act of 1974). ERISA provisions prohibit the direct assessment of self-funded health plans. A report, "Comprehensive Health Insurance for High-Risk Individuals: A State-By-State Analysis", states that 50% of people receiving employer-sponsored insurance are covered by ERISA-protected self-insured plans.

However, there have been recent attempts by states to by-pass ERISA in order to broaden the base upon which high-risk pools are supported. This bill provides for the assessment of all insurance carriers, including reinsurers providing stop-loss coverage to self-funded plans, on the basis of covered lives in an effort to broaden the number of companies that are assessed. The following table describes the estimated cost shifts if 50% of program losses were covered by assessments on stop-loss carriers.

	Change in the Amount of ICHIA Program Costs Paid By:			
% of Tax Credits Assumed to be Taken	**State**	**Participants**	**ICHIA Members**	**Stop-Loss Carriers**
80% *	$11.7M		($11.7 M)	--- **

* ICHIA members are assumed to be able to take advantage of 80% of their tax credits. Although there is no empirical evidence to support the specific assumption of 80%, it is assumed that a larger percentage of credits (greater than the 67.5% assumed in the base scenario) would be able to be taken as total assessment levels imposed on the members decrease.

** The estimate assumes that stop-loss carriers providing coverage to self-funded plans will be able to take full advantage of the tax credits available to them. This would result in a net cost of zero to stop-loss carriers.

The estimated cost shifts in the table assume that stop-loss carriers providing coverage to self-funded plans will be able to take full advantage of the tax credits available to them. It also assumes that current ICHIA members will be able to take greater advantage of the tax credits available to them as a result of reduced assessment levels on the current ICHIA membership. The impact on the state is from increased revenue expenditures due to a greater percentage of tax credits taken by member companies and the newly included stop-loss carriers. To the extent that the stop-loss carriers and reinsurers would not have sufficient tax liabilities to take full advantage of their tax credits: (1) the cost shift to the state would be less than that shown in the table; and (2) some of the assessment costs assumed by the stop-loss carriers and reinsurers might be passed down to the self-funded health plans for which they are providing coverage.

The following assumptions were used to develop a base scenario with which to compare the impact of increasing participant premiums:

(a) An enrollment level of 7,795 (based on the September 2001 enrollment).

(b) Average premium paid by participants of $412 per month, or $4,944 per year (July 2001).
(c) Program cost per participant of $10,038 (2000).
(d) Program cost inflation of 4.5% per year (CPI-U for Medical Care).
(e) No enrollment growth through 2004.
(f) No premium growth through 2004.
(g) 67.5% of tax credits can be utilized by members (based on a survey conducted by Outsourced Administrative Systems, administrator of ICHIA). [Note: The fiscal estimates provided are very sensitive to this assumption. However, no other estimates for the ability to utilize these tax credits has been found at this time.]

The base scenario from these assumptions would result in total program costs of $91 M in FY 2003; total premiums paid by participants of $39 M; and an estimated net program loss of $52 M to be made up by member assessments. Of this amount, an estimated 67.5% of the total assessments could be recouped in the form of tax credits. With these assumptions, the state would ultimately contribute about $35 M, or 38% of the total program cost, the Association members would contribute about $17 M, or 19% of total costs, and program insureds would contribute about $39 M through premium payments, or 43% of total program costs.

The cost estimates in the table, above, are based on a comparison to this base scenario. The bill is effective for tax year 2003, so state revenue impacts in the table could potentially begin occurring in FY 2003 with quarterly tax filing. In addition, these costs represent ongoing costs that would occur annually, and the costs would change in future years with inflation, enrollment changes, etc.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: ICHIA.

Local Agencies Affected:

Information Sources: